



0000157179

Roshka DeWulf & Patten

ROSHKA DEWULF & PATTEN, PLC
ATTORNEYS AT LAW
ONE ARIZONA CENTER
400 EAST VAN BUREN STREET
SUITE 800
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

RECEIVED

2014 OCT 30 A 11:29

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

ORIGINAL

October 30, 2014

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Re: Notice of Compliance Filing
Docket Nos. E-04230A-14-0011 and E-01933A-14-0011

Pursuant to Condition No. 45 of the Settlement Agreement approved by the Commission in Decision No. 74689 (August 12, 2014) which requires Fortis Inc. and UNS Energy Corporation to report to the Commission and RUCO any changes in the credit ratings of Fortis Inc., UNS Energy Corporation or the Regulated Utilities, attached is an October 28, 2014 Standard & Poors report on Tucson Electric Power Company.

If you have any questions, please contact me at (602) 256-6100.

Sincerely,

Michael W. Patten

MWP:jh
Attachments
cc: Pat Quinn, Director, RUCO

Arizona Corporation Commission

DOCKETED

OCT 30 2014

DOCKETED BY	
-------------	--

RatingsDirect®

Research Update:

Tucson Electric Power Co. Issuer Credit Rating Raised To 'BBB+', Stable Outlook; Unsecured Debt Rating Raised To 'BBB+'

Primary Credit Analyst:

Gabe Grosberg, New York (1) 212-438-6043; gabe.grosberg@standardandpoors.com

Secondary Contact:

Matthew L O'Neill, New York (1) 212-438-4295; matthew.oneill@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

Research Update:

Tucson Electric Power Co. Issuer Credit Rating Raised To 'BBB+', Stable Outlook; Unsecured Debt Rating Raised To 'BBB+'

Overview

- The outlook for parent Fortis Inc. was revised to stable based on our expectation that the company's consolidated financial measures will remain in the middle of the range of the "significant" financial risk profile following the conversion of debentures to equity.
- We are raising the issuer credit rating and senior unsecured debt at Tucson Electric Power Co. to 'BBB+' from 'BBB'. The outlook is stable.
- The stable outlook reflects that of Fortis Inc. because we view parent UNS Energy Corp. as a "moderately strategic" subsidiary of Fortis.

Rating Action

On Oct. 28, 2014, Standard & Poor's Ratings Services raised its issuer credit rating and senior unsecured debt rating on Tucson Electric Power Co. to 'BBB+' from 'BBB'. The outlook on the issuer credit rating is stable.

Rationale

The upgrade reflects our view that parent UNS Energy Corp. (UNS) is a "moderately strategic" subsidiary of Fortis and therefore subsidiary Tucson Electric Power Co.'s (TEP) issuer credit rating can be raised one notch, while its ratings remain one notch below Fortis' issuer credit rating. Our assessment of UNS as a "moderately strategic" subsidiary of Fortis reflects our assessment that it is unlikely for Fortis to sell UNS over the next few years, UNS is an important part of Fortis' long-term strategy, and UNS is likely to receive support from the Fortis should UNS fall into financial difficulty.

We view TEP as a "core" subsidiary of parent UNS reflecting our view that TEP is highly unlikely to be sold and has a strong long-term commitment from senior management. TEP's stand-alone credit profile reflects its "strong" business risk profile and "significant" financial risk profile.

TEP's "strong" stand-alone business risk profile, reflects its lower-risk regulated electric utility offset by its greater volatility of profitability compared with the regulated utility industry average. TEP serves more than 400,000 customers in southeastern Arizona and about 75% of its electricity is from coal.

TEP accounts for about 80% of UNS based on our forward view of earnings, revenues and assets. UNS' other businesses include regulated UNS Electric Inc. and UNS Gas Inc. that serve about 250,000 customers.

Although we have historically viewed the Arizona regulatory jurisdiction as challenging, more recently there have been some improvements partially reflecting more credit-supportive rate case orders, partial decoupling for energy efficiency, higher fixed-cost recovery, and a purchased power and fuel adjustment clause that includes a forward-looking component. We view the Arizona regulatory jurisdiction as "strong/adequate" (see "Utility Regulatory Assessments For U.S. Investor-Owned Utilities," Jan. 7, 2014) and we view TEP's management of regulatory risk as average compared with peers. We expect that as TEP continues to gradually improve its management of regulatory risk including reducing regulatory lag and earning its allowed return on equity, the volatility of profitability will progressively improve.

For TEP, we use the medial volatility table, reflecting the company's lower-risk regulated utility business model that includes the higher operating risk of regulated generation.

We view TEP's stand-alone financial risk profile as "significant," reflecting our expectations that the core financial measures will continue to remain in the middle of the range for the significant financial risk profile category. Under our base case scenario of average sales growth that incorporates energy efficiency, higher capital spending for new generation, and necessary capital spending to meet environmental and renewable standards, we expect our core financial ratios of funds from operations (FFO) to debt and debt to EBITDA to be about 19% and 4x, respectively.

Liquidity

We based our analysis of TEP's liquidity on its group's liquidity. Consolidated UNS has "adequate" liquidity, in our view, and can more than cover its needs for the next 12 months, even if EBITDA declines by 10%. We expect the company's liquidity sources over the next 12 months will exceed its uses by about 1.4x. Under our stress scenario, we do not expect that UNS would require access to the capital markets during that period to meet its liquidity needs.

Principal liquidity sources:

- Consolidated operating cash flow of more than \$400 million.
- Consolidated credit facility availability of about \$500 million.
- Consolidated cash of about \$75 million.

Principal liquidity uses:

- Consolidated capital spending of more than \$600 million in 2014.
- No long-term debt maturities in 2014 and less than \$150 million maturing in 2015.
- Consolidated dividend payments of more than \$70 million.

Outlook

The stable rating outlook for Tucson reflects parent Fortis consolidated stable outlook and our expectation that UNS will maintain financial measures that are consistent with the middle of the range for the significant financial risk profile.

We could downgrade TEP if parent Fortis is downgraded or parent UNS's financial measures fall to the lower end of "significant" financial risk profile category.

We could upgrade Tucson if the issuer credit rating on Fortis is raised and the stand-alone credit profile of UNS improves either through improved management of regulatory risk or UNS's consolidated financial measures are consistently at the higher end (FFO to debt greater than 21%) of the "significant" financial risk profile category.

Ratings Score Snapshot

Corporate Credit Rating: BBB+/Stable/--

Business risk: Strong

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Satisfactory

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bbb

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile : bbb

Group credit profile: bbb+

- Entity status within group: Core (+1 notch)

Related Criteria And Research

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014

Research Update: Tucson Electric Power Co. Issuer Credit Rating Raised To 'BBB+', Stable Outlook; Unsecured Debt Rating Raised To 'BBB+'

- Corporate Methodology, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013

Ratings List

Ratings Raised; Outlook Action

	To	From
Tucson Electric Power Co.		
Issuer credit rating	BBB+/Stable/--	BBB/Positive/--

Ratings raised

	To	From
Senior unsecured debt	BBB+	BBB

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2014 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.